

CLIMATE REPORT 2017

PRIVATE SECTOR AND CLIMATE FINANCE IN THE G20 COUNTRIES

ABOUT THE REPORT

The G20 countries comprise two thirds of the global population as well as more than three quarters of the world's economic output, trade and CO₂ emissions. Climate change is on the G20 agenda as a central future issue, also as an economic and fiscal challenge because corresponding investments from the private sector are a prerequisite for the fulfilment of the Paris climate protection goals. Our latest Climate Report, which continues the series from 2007, 2011 and 2014, provides answers to the question of how far the private sector plays a role in climate financing in the G20 countries.

USA

The private sector has traditionally played a significant role in the USA. The US financial sector is the highest-volume sector in the world. Hence, institutional investors have considerable resources that also flow into climate financing, although still to a minimal extent. However, there are a number of sustainability indices in the USA, but they have so far not been widely used. At the same time, more and more big companies opt for energy supply from renewables sources.



*With around 5,000 wind turbines, the Alta Wind Energy Center in Bakersfield is one of the largest wind farms in the world.
Source: © Spondylolithesis, iStockPhoto*

PRIVATE CLIMATE FINANCING ON THE RISE

The topic of “private climate financing” has held a strong presence in the media at the latest since the beginning of the divestment debate about five years ago. The divestment movement is currently directed mainly at the financial departments of private universities, which have considerable resources. This is primarily a shift from coal, natural gas and mineral oil investments into other sectors. However, explicit climate investments are not yet associated with this. The discussion on private climate finance is largely focused on the investment of large companies in their own supply of renewable energies. IT companies such as Amazon, Apple, Google, Facebook or Microsoft, as well as service providers such as the MGM Group, detach themselves from the offer of the respective local energy supplier and opt for cost-effective long-term contracts for the procurement of renewable energies. The USA is the world leader in this market and represents a significant share of private investments in renewable energies

THE IMPORTANCE OF THE PARIS AGREEMENT FOR PRIVATE CLIMATE FINANCING

At least 81 large companies joined the “American Business Act on Climate Pledge” in 2015 in support of the Paris Agreement (PA) and formulated their climate protection contributions in this context. However, at the national level, there is no direct link between the ambitions of the private sector and the Nationally Determined Contribution (NDC), which is the self-imposed contribution of the USA within the framework of the PA. The NDC of the USA covers emission reductions in all sectors but does not establish sector-specific sub-goals. The private sector is directly affected by a number of the regulatory policies (Clean Air Act, Energy Policy Act, Energy Independence and Security Act). An open discussion on a proactive role of the private sector to achieve the NDC began to some extent in the final phase of the Obama administration; it broke off,

however, with the new government in 2017. At the level of the federal states, individual companies are however likely to have a greater impact on climate policy developments; an example for this is the technology sector in California.

IMPORTANT INSTRUMENTS TO INCREASE PRIVATE CLIMATE INVESTMENTS

At the federal level, there are three tax incentives, which usually cannot be combined, for climate investment:

1. Since December 31, 2016, the Renewable Electricity Production Tax Credit (PTC) has been updated and is now limited to the promotion of wind energy plants which will be built by the end of 2019 (currently at 2.3 US dollar cent per kilowatt hour for a maximum of ten years).
2. The Residential Renewable Energy Tax Credit, which only applies as of this year to photovoltaic systems (PV) and solar thermal systems for private homes, will allow a 30 percent tax deduction of plant costs by the end of 2019. The tax relief will be gradually reduced to 22 percent by the conclusion of the programme, at the end of 2021.
3. The Business Energy Investment Tax Credit (ITC) enables companies to claim tax deductions which, dependent on the technology, mean a gradual reduction from the current level to 30 percent. After 2022, only geothermal electricity generation and photovoltaic will be considered, with ten percent each.

These tax credits can be traded in the USA nationwide so that project developers can sell these credits at a discount. This market is not very transparent or regulated and consists entirely of over-the-counter and broker transactions without

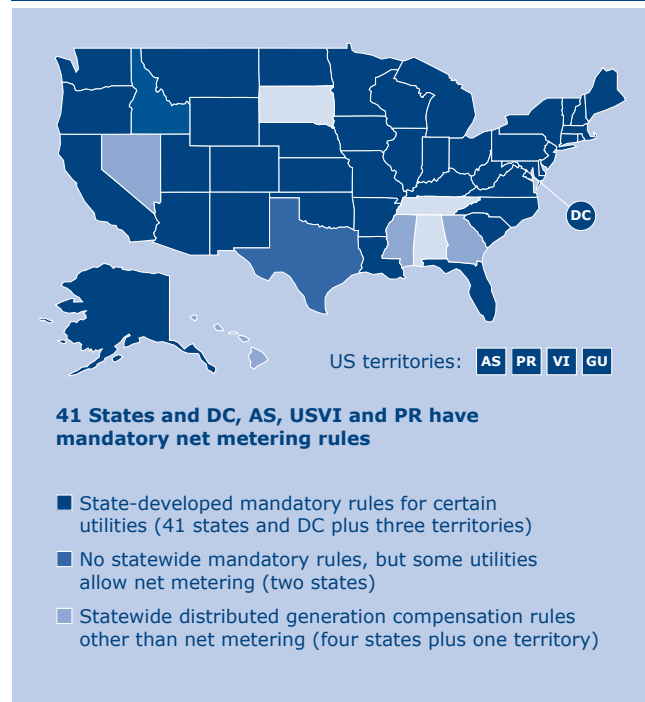
the use of a stock exchange. There are various assumptions about the size of the market and whether it can be extended.

The federal states also generate important incentives which trigger private climate investments, particularly with their minimum quotas for renewable energies in the electricity mix. Suppliers must comply with the quotas either by investing in renewable energies themselves or by purchasing certificates in the open market instead. In addition, important incentives are also emerging from feed-in tariffs (net metering), in particular for the construction of smaller plants.

The expansion of renewable energies has developed into a very successful business field in the USA, thanks especially to very favourable conditions for wind power and solar power, but also thanks to the accompanying cost-cutting tax regulations. The most important role of the state is currently to continue with the existing tax benefits. The main reason for this, from the point of view of political decision-makers, is found in the economic power, which is now behind renewable energies, be it as a source of tax revenue, or from over 670,000 direct jobs created by the employers in this sector. On the other hand, climate adaptation and climate protection play only a subordinate role as motivators, if at all.

In addition, there are two regional emission trading systems in the USA: the California-based trading system and the system of the East Coast States, the Regional Greenhouse Gas Initiative (RGGI). The RGGI has been in existence since 2009 and today includes the states of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island and Vermont. The RGGI obliges the participants to cover their CO₂ emissions from the generation of electricity through emission certificates. Fossil power generation plants with over 25 megawatt are obligated to comply. The total quantity of allowances (Cap) was 86.5 million tons in 2016, and is reduced by 2.5 percent annually. In the Californian trading system, there is a

NET METERING REGULATIONS IN THE FEDERAL US STATES



Source: DSIRE 2016

lowest price limit which has, however, led to the fact that since the beginning of 2016, the quantity supplied could no longer be sold in the auctions. At the last RGGI auction in March 2017, the price was only three US dollars per ton of CO₂. Overall, the greenhouse gas emissions trading in the USA is not in good condition due to low allowance prices and low demand. No improvements are expected in the short term.

INITIATIVES OF THE FINANCIAL SECTOR

The financial sector is active in a number of areas. Important sustainable funds in the United States are, among others, the Green Century Equity Fund, the Vanguard FTSE Social Equity Fund, the Calvert Large Cap Core Portfolio and the Fidelity Select Environment & Alternative Energy Portfolio. Meanwhile, investing into green bonds has developed into a growing market, with 7.5 billion US dollars in 2016 in the United States of America. The world's largest green bond was issued by Apple with 1.5 billion US dollars. Among the banks, the Bank of America leads the global Green Bond market.

A number of banks have entered into commitments to quit coal production and exploitation, including Citigroup, Bank of America, Morgan Stanley and Wells Fargo. Also, almost all of the major banks in the USA have committed themselves to the Equator Principles for the management of environmental and social risks in projects. Also, some banks have committed themselves to making climate investments to a certain extent. Thus it was Citigroup's goal to invest 100 billion US dollars in climate protection in 2015; but it is spread across the world and over a ten-year period, which puts this figure back into perspective.

RESTRICTIONS AND BARRIERS

The commitments mentioned above notwithstanding, a number of banks are still active in the mineral oil sector. Among others, Citigroup, SunTrust Robinson Humphrey, TD Bank and Wells Fargo are financing the controversial Dakota Access Pipeline or its parent company Energy Transfer Partners. Another example shows how complicated it is to comply with voluntary self-commitments. Although JPMorgan Chase was known to no longer promote coal projects, together with BNP Paribas the bank has now begun to look for buyers for a 250-million-euro bond from Polish ENERGA Finance AB, the financial subsidiary

of the Polish energy company ENERGA S.A. Since the bond cannot be directly attributed to the construction of a new power plant, JPMorgan Chase is not breaking its word, strictly speaking. While the experiences of investors are very positive due to the tax incentives for wind and solar energy, they have been rather negative in the biofuel sector, especially in so-called third-generation biofuels, i.e. the enzyme- and algae-biofuels.

According to the current status, the new US government is not pursuing the goal of strengthening private climate financing. As a result, from the point of view of the United States, the G20 is not a suitable framework or driving force for this purpose. Already at the meeting of the G20 finance ministers in March 2017, the new US government enforced that the issue of climate finance did not appear in the communiqué. The expectations of domestic stakeholders in the USA, that the G20 can make a contribution in the area of private climate financing, are extremely muted against this background.

CONCLUSION AND OUTLOOK

Private stakeholders in the USA will continue to be the driving force behind private climate investments in the USA. From the point of view of the financial stakeholders who are committed to climate investments, the business prospects in the USA are, however, not favourable although some big companies will continue to invest in the climate change, especially technology companies. Despite the existing incentives for climate investment, private investors in the USA largely lack in long-term planning security. The regulatory framework is subject to significant fluctuations, which slows down long-term investments. There is also a lack of price consideration of the environmental-, resource- and climate-related risks for investment decisions. The state authorities have recently been forced to disregard the social costs of climate change. A national cost estimate of greenhouse gas emissions is currently not foreseeable. The

Clean Power Plan will presumably continue to exist, if at all, in a very weakened form, which should reduce the climate policy ambitions of the federal states in the coming years.

Max Grünig is President of the Ecologic Institute, Washington D.C.

FURTHER READING

- National Renewable Energy Laboratory 2017: Energy Analysis: Voluntary Green Power Procurement, in: <http://bit.ly/2v6flmz> [4 Jul 2017].
- National Renewable Energy Laboratory 2016: Corporate Renewable Energy Procurement, in: <http://bit.ly/2uLXh1Y> [4 Jul 2017].
- Regional Greenhouse Gas Initiative 2017: Annual Report on the Market for RGGI CO₂ Allowances: 2016, in: <http://bit.ly/2ucRqWb> [4 Jul 2017].